

CHINA REPRESENTATIVE OFFICES

SYNOPSIS

China's rapidly expanding economy and vast population has made it one of the world's most attractive markets for business expansion. For many companies entering the Chinese market, a representative office (RO) in one of the major cities such as Beijing, Shanghai or Shenzhen, offers an inexpensive way to establish a permanent presence in the country to provide access to the China market. Representative offices can be generally used for conducting market research; quality control, purchasing; marketing and sales administration for sales conducted between China and the parent company, and administration for Group activities elsewhere in China.

Although representative offices are not permitted to charge for goods or services, it is generally possible for invoicing to be conducted directly from the overseas parent, although in some cases this may incur a withholding tax liability of up to 20%.

GENERAL REQUIREMENTS

The applying entity should be able to show at least one year of operating history and in some cases at least US\$10,000 or equivalent in issued share capital. ROs must also be located in Grade A, government approved buildings and will need to take on a lease before the application can be completed.

Expatriate staff will need to make an application to be granted a work permit, and local staff need to be hired and paid via a government-recognized organization approved for this purpose.

ROs must also register for tax and submit monthly reports (depending on location) and always, annual audits. RO licenses are generally issued for one to three years but are renewable after this time.

TAXATION

Representative offices are subject to both Business Tax and Foreign Enterprise Business Tax in China, which depending on the location of the RO creates a liability of approximately 7-10% of the total declared expenses of the RO. This needs to be filed and paid on a monthly basis (in some locations filings and payments are quarterly). Tax Exemption can be claimed if you can prove your parent company is in manufacturing, if your representative office is facilitating purchases in China or if your representative office classifies for other activities, which may be granted tax exemption status by the local tax bureau officials. Audits are conducted annually and need to be submitted generally by the end of April.

APPLICATION DOCUMENTS

In order to set up an RO it is necessary to prepare a range of documentation and often with multiple notarised copies. The exact documentation and number of copies will again depend on the requirements of the authorities in the locality where the RO is to be established, but the general requirements for the parent company are listed below:

- Certificate of Incorporation.
- Tax Registration Certificate.
- Register of Directors and Shareholders.
- Official company letter/ board resolution requesting permission to establish an representative office.
- Letter appointing the Chief Representative.
- Bank reference in the company name.

Landlords' Documents

- Landlords official letter giving permission to rent commercial property to foreigners, or the building itself must be certified as building suitable for representative offices registrations.
- Lease.

Chief Representative's Documents

- A brief resume and usually, twelve colour passport photos.

RESTRICTIONS ON ACTIVITY

Representative offices are not allowed to invoice for any goods or services and there are some restrictions on activities and sectors.

SCHEDULE OF FEES

US\$4,500	Administrative procedures to set up of representative office.
c.US\$ 300	Government fees & disbursements (subject to regional variation).

OPTIONAL SERVICES

Sovereign can offer a one-stop service to clients wishing to set up ROs in China thus reducing risks and costs to the company. Through our network of local service providers, we can assist in the sourcing of suitable offices, sourcing of local staff and management, the structuring of expatriate salaries for maximum tax efficiency, legal drafting of leases and employment contracts, and the provision of accounting services. Fees will be quoted on a case-by-case basis.